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Mar 13, 2012

Rare PTJ Interview From 2000.

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Interview with Paul Tudor Jones II
(Abridged)
by Joel Ramin
January 13, 2000

Paul Tudor Jones II is the president and founder of Tudor Investment Corporation, and was featured in Jack D. Schwagers classic "[Market Wizards](#)". This is an edited transcript from the interview, which was held at Paul Jones's office in Greenwich, Connecticut on January 13, 2000.

Q: Can you briefly describe your background?

Paul Tudor Jones: I went to high school at Memphis University school. My father went to Virginia Law School so he steered me to the University of Virginia. I went to Virginia from 1972 to 1976, majored in [economics and had](#) a great time. I really loved UVA. I graduated and went to work for Eli Tullis who was a Virginia graduate from New Orleans. He was a cotton speculator, maybe the biggest cotton speculator, and he gave me a job on the former New York cotton exchange and I began literally two weeks after I graduated from school. That's how I got into the futures markets.

Q: What sparked your original interest in trading?

Paul Tudor Jones: I went to New York and saw the floor of the commodities exchange and there was such an energy level there and so much excitement that I knew that was the place for me. I've always liked action and the exchange seemed like a perfect home for me.

Q: When did you decide you wanted to run a fund?

Paul Tudor Jones: In 1976 I started working on the floor as a clerk and then I became a [broker for E.F. Hutton](#). In 1980 I went strictly on my own as what they called a local and did that for about two and a half years and had two and a half wonderfully

profitable years, but I really got bored. I applied to Harvard Business School, got accepted and was about to go. I literally was packed up to go and then I thought, 'this is crazy', because for what I'm doing here, they're not going to teach me anything. This skill set is not something that they teach in business school. So I didn't go, I stayed, but I was really bored because there wasn't the personal interaction that was something that I craved and having colleagues and being in a clean atmosphere and that was when I started my fund. All through growing up I've been involved in team sports and fraternities and in school I was involved in a whole variety of activities all of which were team oriented and when I was on my own I was printing money every month, but I wasn't getting the psychic satisfaction from it

Q: How would you describe your general investment philosophy?

Paul Tudor Jones: I think I am the single most conservative investor on earth in the sense that I absolutely hate losing money. My grandfather told me at a very early age that you are only worth what you can write a check for tomorrow, so the concept of having my net worth tied up in a stock a la Bill Gates, though God almighty it would be a great problem to have, it would be something that's just anathema to me and that's one reason that I've always liked the futures market so much, because you can generally get liquid and be in cash in literally the space of a few minutes. So that always appealed to me because I could always be liquid very quickly if I wanted to. I'd say that my investment philosophy is that I don't take a lot of risk, I look for opportunities with tremendously skewed reward-risk opportunities. Don't ever let them get into your pocket - that means there's no [reason to leverage](#) substantially. There's no reason to take substantial amounts of financial risk ever, because you should always be able to find something where you can skew the reward risk relationship so greatly in your favor that you can take a variety of small investments with great reward risk opportunities that should give you minimum draw down pain and maximum upside opportunities.

Q: How do you measure your performance?

Paul Tudor Jones: You've got to look at good traders historically. If a [trader](#) can on average annually deliver two to three times their worst draw down, then that's a very good track record, and I'd say that that's what I try to do. If I thought that for the funds that I managed that 10% would be the worst that I would tolerate in a given year then hopefully I'd annualize two or three times that and that's probably what I've done. Maybe a little below that in the '90's and a little above that in the '80's.

Q: What's your competitive advantage as a trader?

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Paul Tudor Jones: The secret to being successful from a trading perspective is to have an indefatigable and an undying and unquenchable thirst for information and knowledge. Because I think there are certain situations where you can absolutely understand what motivates every buyer and seller and have a pretty good picture of what's going to happen. And it just requires an enormous amount of grunt work and dedication to finding all possible bits of information.

You pick an instrument and there's whole variety of benchmarks, things that you look at when trading a particular instrument whether it's a stock or a commodity or a bond. There's a fundamental information set that you acquire with regard to each particular asset class and then you overlay a whole host of technical indicators and that's how you make a decision. It doesn't make any difference whether it's pork bellies or Yahoo. At the end of the day, it's all the same. You need to understand what factors you need to have at your disposal to develop a core competency to make a legitimate investment decision in that particular asset class. And then at the end of the day, the most important thing is how good are you at risk control. Ninety-percent of any great trader is going to be the risk control.

Q: Can you give an example?

Paul Tudor Jones: Certainly. The one on a percentage basis that's been the most profitable for me was the crash of 1987. There was a [tremendous embedded derivatives](#) accident waiting to happen in the crash of '87 because there was something in the market that time called portfolio insurance that essentially meant that when stocks started to go down it was going to create more selling because the people who had written these derivatives would be forced to sell on every down-tick. So it was a situation where you knew that if you ever got to a point where the market started to go down that the selling would actually cascade instead of dry up because of the measure of these derivative instruments that had been written. And in the crash of '87 you had an overvalued market and you also finally had a situation where every down-tick would create more selling and I think I understood the dynamics of that. The crash was something that was imminently forecastable to somebody that understood the measure of derivatives and how large they had grown in such a relatively short period of time and the impact that it would have on a relatively unknowing and na'e market. And the same exact thing happened in 1990 in Japan.

Q: So what is your opinion of the US equity markets now?

Paul Tudor Jones: Clearly there are parts of the US equity markets that we've never seen anything like it anywhere in modern times in terms of valuation. The question is what's the

trigger event that gets you to mean revert and whereas you had specific derivative inspired events in 1987, I don't see that now. So how long can these levels of overvaluation persist? I would think rather than seeing any type of really sharp break, what you might see prospectively is something that looks a lot more like '68 to '73 did where you had big rolling corrections and rotations and a market that doesn't really make any upside progress but with a lot of volatility that traverses big ranges.

Q: Do you have any specific catalysts that you're looking for?

Paul Tudor Jones: I think you're finally getting interest rates at a level where they're extraordinarily negative for equities. You look at every bear market and they've always basically occurred because of an up-tick in inflation and an up-tick in interest rates. We're definitely at a point where rates are high enough where they're going to have a big impact on equities. When you look at the volatility we've had in the past month in the NASDAQ for instance, every time I've seen volatility like that, I don't care what the market was, whether it was soybeans in '76 or '83 or whether it was silver at the top in 1980 or whether it was some of the biotech stocks at the top earlier in the '90's, when you get that kind of volatility you know that generally that's associated with a top. The best you can hope for if you're long is to look at some type of significant long term sideways action where the markets consolidate before moving higher or generally speaking allow that those have done their thing and we will have topped for years and years to come. I'm probably more of a subscriber to the latter theory.

Q: How big was your fund when you started and how much money does your company have under management now?

Paul Tudor Jones: Right now we have about five or six billion dollars under the management of several large traders including myself. Back in '83 we started with \$300,000.

Q: Do you like managing so much more money?

Paul Tudor Jones: I don't like managing it at all. The smaller it is the greater you can do because there is no slippage and greater liquidity.

Q: It was widely published that in 1987 you reportedly made between \$80 million and \$100 million ? more than anybody on Wall Street. How did that make you feel?

Paul Tudor Jones: At the time, I was young enough to enjoy that. I was in my early 30's and that was exciting, but the older you get you realize that at the end of the day the amount of money you have has absolutely zero bearing on how you feel about yourself and the quality

of your life. It becomes a very shallow measure of a person's worth. I have a great wife and four great kids now and that would be my crowning achievement.

Q: Is there more risk in the stock market now than ever before?

Paul Tudor Jones: Certainly in the stock market, there are some stocks with valuation levels that mankind has never seen before so one would think that they have a lot more risk. It's funny, but I'm actually not the best person to ask about the stock market. You see, our company is just a group of 280 individuals, all of us are basically united under one purpose, and everybody has pretty much the same MO, young professionals with kids, generally very conservative. Really all my capital is tied up in this company, so on the one hand I think to myself my gosh the concept of owning stocks is anathema to me because of the fact that I always want to be liquid, so a lot of our investments typically are things with a very short lifespan like derivatives, not owning stocks. So as far as risk in the stock market, that's not my core competency, so I'm really not a great person to ask.

Q: Can you comment on the life of your fund's returns since you began investing?

Paul Tudor Jones: Our returns have definitely flattened out since the '80's. But if you look at my risk adjusted returns, they're very similar and I'm probably the same exact trader as I was 15 years ago. What's different has been my own personal appetite for risk and volatility. I think that probably happens with a lot of people as they get older. Everything is a function of leverage, how much of a draw down are you willing to tolerate, how much leverage do you want to put on. When I was younger, I had much greater draw downs, much greater draw down frequency, much greater leverage. So again, I'm probably the exact same trader as I was 15 years ago, it's just less risk, less return.

There are exceptions to the rule, but the normal progression of most traders that I've seen is that the older they get something happens. Sometimes they get more successful and therefore they take less risk. That's something that as a company we literally sit and work with. That's certainly something that I've had to come to grips with in particular over the past 12 to 18 months. You have to actively manage against your natural tendency to become more conservative. You do that because all of a sudden you become successful and don't want to lose what you have and/or in my case you get married and have children and naturally, consciously or subconsciously, you become more conservative. If there's one thing in our company that we probably will spend more time working on in the year 2000 than we ever spent historically, it's that as a group we all came to be overly conservative and we need to leverage up more within our company and I'm probably the worst offender. So now I have a whole variety of portfolio measures that I sit down with every afternoon, to try to hit some

benchmark leverage measures to make sure I deliver what my investors unequivocally deserve in terms of the opportunity to get the kinds of returns they're used to.

Q: What are some perceptions and priorities of yours that have changed over the years?

Paul Tudor Jones: I think there's a natural progression that everyone goes through. The older you get, the more you'll realize that a quality life is one that has an extraordinary balance in it. The guy that's working at 75 years of age and still running a company, that doesn't have any appeal to me because I think his life is out of balance. If the only thing that he can find that's that satisfying to him is being involved in a profession with something, I think you've got to have more balance. In my 20's all I cared about was being financially successful and today I look to strive for a more balanced life. In that context though, when I come to work I'm as competitive as anybody you'll meet and I clearly look forward to the day when I have the best performance of my peers, the macro hedge funds, for the year, which hopefully will be this year.

Q: What was the best and worst year you ever had?

Paul Tudor Jones: The worst year was probably 1993. I only returned 1.6%. Never had a down year. And my best years, well I fortunately cut my teeth in two great bear markets, the '87 bear market and the 1990 Japan bear market and there's no question that that's biased me a bit. I returned about 200% in 1987 and 80% or 90% in 1990. I worked 80 hours a week and clearly I'm not doing that without trying to be number one. All my friends are in the business, and I wish them all well, but everybody's got a competitive spirit.

Q: Are you more naturally bearish or bullish?

Paul Tudor Jones: Bearish, I think. I would have difficulty asking anyone to pay 10 or 20 times earnings for my earnings capability for the rest of my life. I would think you're crazy to do that even though it might be a great deal, so the concept of paying one-hundred-and-something times earnings for any company for me is just anathema. Having said that, at the end of the day, your job is to buy what goes up and to sell what goes down so really who gives a damn about PE's? If it's going up you're supposed to be long it. But there's no question that it's just easier for me to leverage with some degree of conviction the short side of some markets.

Q: When are you going to retire?

Paul Tudor Jones: I have a son that just turned three and I would unequivocally continue to trade until he went to college. At that point I think I'd probably be airborne hunting and fishing

all over the globe every day in my life. I don't even necessarily need to be hunting and fishing, I just love to be out doors.

Q: What do you think is going to happen to your company when you do retire?

Paul Tudor Jones: I could get run over by a truck tomorrow morning and the company would go on and wouldn't miss a beat. We've got the best business model there is on the street for doing this.

Q: Who are you going to vote for in the presidential election?

Paul Tudor Jones: I think the biggest issue facing America, unequivocally, is campaign finance reform. When you sit down and talk about gun control or charter schools or whatever, all those issues, it's impossible to have politicians actually vote their conscience when they're all unequivocally conflicted because of the fund raising necessities they have and the amount of money they take. Until you have campaign finance reform and term limits, we're dealing with a whole group of elected officials who are incapable of making any independent and honest decisions. So McCain, Bradley, I'll vote for either one of them. I'll vote for any politician that's going to sign the dotted line to get the money lenders out of the temple. I think that if you look at the 13,000 registered lobbyists in Washington, what chance do you or I have of having a voice in government unless you're willing to write a big check? Because that's what all those guys are doing. I'll tell you from my conservation battles down in Florida. The entire sugar industry in Florida, which is destroying the Everglades, they have one business. Their business is not growing sugar. Their business is paying off every politician that they can see simply so that they can continue with a subsidy that does nothing but take money out of every Americans pocket and put it in theirs.

Q: You were close to getting that legislation to go your way, weren't you?

Paul Tudor Jones: Right. And they spent forty some-odd-million dollars to fight us. Forty million dollars that they probably got through some extraordinarily inequitable and unfair and offensive subsidy that they have done an excellent job of paying off every politician in Congress for. Campaign finance for me is the key issue. It's funny, McCain is a great example. He's probably way too conservative for me, but I'd vote for the guy in a heart beat because there's no doubt in my mind that he more so than anyone would probably go in and attack the vested interests there in Washington that completely distort and destroy our political process.

Q: Would you ever run for political office?

Paul Tudor Jones: No. I've got a family and kids and I couldn't be away from them that much.

Q: Let's play a word association game. I'll say a word and you say whatever comes to mind.

Q: Technical analysis

Paul Tudor Jones: Made well over half the money that I've made in my lifetime.

Q: Fundamental Analysis

Paul Tudor Jones: Made the rest.

Q: Are you better at one or the other?

Paul Tudor Jones: [Probably technical analysis.](#)

Q: Market efficiency

Paul Tudor Jones: No such thing.

Q: [Long Term Capital Management](#)

Paul Tudor Jones: Icarus.

Q: Black Monday

Paul Tudor Jones: It was like watching a natural disaster from the sidelines. I was intimately involved in that day, but the macro implications of what was happening overwhelmed any personal considerations that I had.

Q: Warren Buffet

Paul Tudor Jones: His aversion to paying taxes made him a great investor.

Q: Kids

Paul Tudor Jones: The most fun you'll ever have.

Q: Environment

Paul Tudor Jones: The second most fun you'll ever have.

Q: The Internet

Paul Tudor Jones: A wonderful delivery mechanism that's overhyped.

Q: Day Traders

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Paul Tudor Jones: 95% losers.

Q: The University of Virginia



building, ethics, exposure, etc?

Q: Wall Street

Paul Tudor Jones: The last great frontier. I went there with nothing. You can go there with nothing and do whatever you want to do.

Q: What do you think you'll be most remembered for?

Paul Tudor Jones: I don't think anybody will remember me.

Q: What do you hope you'll be remembered for?

Paul Tudor Jones: I think Teddy Roosevelt's greatest legacy is the national parks system, so on a micro level anything that I could do to protect natural resources, I think, would be the best legacy that I could leave my kids.

Q: If you were writing a story about Paul Tudor Jones, what one question would you ask him?

Paul Tudor Jones: If you could do one thing differently, what would you do?

Q: And what's the answer?

Paul Tudor Jones: When you look at the wealth creation in the Internet in the past decade, it would have required me to literally completely change my stripes and move over in a different world from macro analysis and trading a whole variety of instruments to going into building a business in a brave new world in the Internet. So I look back and I see the wealth creation that we've seen the past three years of which we've fortunately, derivatively been able to enjoy here at Tudor because we have our whole Boston office that's dedicated towards private equity and that did an extraordinary job last year. But I guess, everyone that works on Wall Street today, particularly given our industry reliance on computers, knowing that that entire explosion occurred right under your nose, everyone has got to say, 'My gosh, what if eight or 10 years ago I had made a decision to completely focus and be in the middle of technology? Instead of sitting in front of a screen, what if I had gotten on a plane and gone

and played the [venture capital game out](#) in California every day'? I'd argue that many of the people that benefited from it probably were in the right place at the right time and got very fortunate and there probably aren't but a handful of people that actually had the vision to go do it and the ones that actually did, I take my hat off to them and applaud. But I've always said, I'd just as soon be lucky as good and there are a whole variety of people that were just in the right place at the right time who did extraordinarily well and I'm happy for them. But I always do play the 'what if' game. What if you'd taken your full repertoire of talents and skills and been involved in that from day one? Could you have been Bill Gates or could you have been whatever empire builder there was?

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Comments (15)

- Anonymous Monkey

○

**Anonymous Monkey**, what's your opinion? Comment below: Notifications Powered By

"Having said that, at the end of the day, your job is to buy what goes up and to sell what goes down so really who gives a damn about PE's?"

Awesome.

Buy Side Analyst

- JeffSkilling

○

**JeffSkilling**, what's your opinion? Comment below:

Q: Warren Buffet

Paul Tudor Jones: His aversion to paying taxes made him a great investor.

Ironical.

NOL

- ah

ST

**ah**, what's your opinion? Comment below:

i've seen this lol.

I don't accept sacrifices and I don't make them. ... If ever the pleasure of one has to be bought by the pain of the other, there better be no trade at all. A trade by which one gains and the other loses is a fraud.

- rynofrowan

ST

**rynofrowan**, what's your opinion? Comment below:

“ ah:

i've seen this lol.

LOL

Moving tonnes of product. Making fat stacks.

- Nouveau Richie

○

**Nouveau Richie**, what's your opinion? Comment below:

“ Macro Arbitrage:

Q: [Long Term Capital Management](#)

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Paul Tudor Jones: *Icarus.*

Goddamn that's smooth. This is a Don [Draper](#) answer.

“Macro Arbitrage:

Q: *Wall Street*

Paul Tudor Jones: *The last great frontier. I went there with nothing. You can go there with nothing and do whatever you want to do.*



"BITCH PLEASE." -Silicon Valley

"Millionaires don't use astrology, billionaires do"

3



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ST

👤 **Maximus Decimus Meridius**, what's your opinion? Comment below:

Thanks for posting that. SB for you.

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BTW, this was priceless:

Q: [Long Term Capital Management](#) Paul Tudor Jones: Icarus.

★ [Certified Sales & Trading Pro](#)

- [JeremyLinMVP](#)

AM



JeremyLinMVP, what's your opinion? Comment below:

Amazing. Thanks for posting.

[Private Equity Interview LBO Model](#)

- [englandwales](#)

AM



englandwales, what's your opinion? Comment below:

Fantastic! Thanks for that!

[Best Practices in Financial Modeling](#)

- [RE Capital Markets](#)

RE



RE Capital Markets, what's your opinion? Comment below:

That was pretty good read.

Man made money, money never made the man

- [ah](#)

ST



ah, what's your opinion? Comment below:

I heart PTJ

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1

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RS



Macro Arbitrage, what's your opinion? Comment below:

[quote=ah]I heart PTJ

★ [Certified Research Pro](#)

Best Response

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- **Shane Warne™**

**Shane Warne™**, what's your opinion? Comment below:

I found these posts on a forum a while back:

“

Paul Tudor Jones spoke with our class today

10-23-2008, 02:33 PM

All,

We had the opportunity to have Paul Tudor Jones speak to our Financial Trading class today.

He had some interesting things to say, and I thought I'd share them with you. I'll just quote/paraphrase some of the things he said and let the discussion evolve if anything is of particular interest.

"If anyone in the world was stranded on a deserted island, and they could only have access to one form of [trading](#), either all the fundamental information in the world, or the access to charts for technical analysis, I would say that, and it's not even remotely close, people would be foolish not to choose technical analysis every day of the week and twice on Sunday."

"I can't think of a single circumstance in which I will ever hire a trader who says he bases his decisions on fundamentals. I've been burned too many times by these guys who think they are smarter than the market."

He was ranting pretty hard core against fundamental traders. He was saying they run such a huge risk of going broke because the fundamentals can change without them knowing it, and they will average down too many times due to the market being oversold, too much value on the table, etc.

"All the major busts and meltdowns in the history of Wall Street have developed from owning a super reversal portfolio." A super reversal portfolio is one he defines as opposite the trend in regards to the 200 day moving average and the 25 day moving average. So long something that's below both the 200 day moving average and 25 day moving average, or short something above those trend lines.

"Using that [fundamentalist] mentality...that may have worked in the past, but it's insane to average down in the greatest liquidation of the biggest credit bubble in history, especially considering the S&P is [trading](#) at 1.7x book. In the Great Depression it traded at 0.4x book and in the 70's it traded at 0.8x."

He says he more or less lives by 3 rules: 1) The trend is your friend 2) Losers average losers 3) 5 to 1, ie only risk your money when there is a 5 to 1 payoff for that specific trade.

The last interesting thing I can recall: He shat upon Warren [Buffett](#), saying he may be one of the greatest investors in history, but he has absolutely terrible risk management skills to be entirely fully invested and long at this current juncture. He also called into question his ability to profit in a bear market, citing that he started investing in 1972, one of the greatest times in history to start investing.

He's an extremely successful trader that was profiled in the first edition of the [Market Wizards](#) series. Although he did say some dumb stuff about Warren [Buffett](#), overall he was a very entertaining and inspiring speaker. He certainly made making millions in [trading](#) sound achievable.

Also, his main fund is down 2% for the year. He has only had 1 losing year since starting Tudor Investment Corporation in 1980. He said he will just about die of a heart attack if they have a losing year this year.

The crash of 1987 was his single greatest [trading](#) day of all time. He talked to us about it for a little bit.

He said he was watching the market leading up to the the crash and it started to trade just like the 1929 top. Luckily he had been researching and studying the crash of 1929 somewhat recently so he was immediately very fearful about being long the market.

Tudor had started up a risk or merger [arbitrage](#) fund recently, run by a fundamentalist. Paul informed the fund manager that he was fearful and didn't want to be holding much stock in the coming weeks. The fund manager assured him that the stocks in the arb fund don't trade with the market at all, and that they are insulated.

Sure enough, Jones goes back and looks and they trade very much in line with the market.

Then, I don't remember his exact specifics, but the market was on somewhat of an uptrend, dropped around 10% and then resumed a climb. However, these "dogs" of stocks that were being held in the arb fund stopped trending with the market, and started falling off a bit. He tells the fund manager again, I want out of these stocks, I don't feel good about the future, etc.

The fund manager comes back to him and says, "Listen, I got out of 2/3 of the stocks, but I cannot get rid of the other 1/3. If you found out what prices I'm selling these stocks at, and the value I'm leaving on the table.. it's just absurd, you would fire me! I just don't think I should do it."

Paul Jones replies back, "I'll give you 30 minutes to get out of these stocks. Get me out of these stocks, or your done."

Sure enough, within the next couple of days, the crash of 1987 occurs, sending the market down 23% in a single day. He's a great storyteller, and it was really hilarious. I obviously don't convey it by just typing up what he said.

Source: <http://forumserver.twoplustwo.com/30/business-finance-investing/paul-tudor-jones-spoke-our-class-today-327300/>

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Macro Arbitrage, what's your opinion? Comment below:

“ Shane Warne™:

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Sure enough, Jones goes back and looks and they trade very much in line with the market.

Then, I don't remember his exact specifics, but the market was on somewhat of an uptrend, dropped around 10% and then resumed a climb. However, these "dogs" of

stocks that were being held in the arb fund stopped trending with the market, and started falling off a bit. He tells the fund manager again, I want out of these stocks, I don't feel good about the future, etc.

The fund manager comes back to him and says, "Listen, I got out of 2/3 of the stocks, but I cannot get rid of the other 1/3. If you found out what prices I'm selling these stocks at, and the value I'm leaving on the table.. it's just absurd, you would fire me! I just don't think I should do it."

Paul Jones replies back, "I'll give you 30 minutes to get out of these stocks. Get me out of these stocks, or your done."

Sure enough, within the next couple of days, the crash of 1987 occurs, sending the market down 23% in a single day. He's a great storyteller, and it was really hilarious. I obviously don't convey it by just typing up what he said.

Source: <http://forumserver.twoplustwo.com/30/business-finance-investing/paul-tudor-jones-spoke-our-class-today-327300/>

Thanks for sharing this.

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• ah

ST



ah, what's your opinion? Comment below:

^ This guy (quoted) obviously goes to my school. He speaks to our class (financial trading) every year.

I don't accept sacrifices and I don't make them. ... If ever the pleasure of one has to be bought by the pain of the other, there better be no trade at all. A trade by which one gains and the other loses is a fraud.

• whatwhatwhat

HF



whatwhatwhat, what's your opinion? Comment below:

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